No. 01-701

Supreme Court U.S.
FILED
DEC 19 2001
OFFICE OF THE CLERK

In The Supreme Court of the United States

TACO BELL CORPORATION, *Petitioner*,

v.

WRENCH LLC, JOSEPH SHIELDS, AND THOMAS RINKS,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR THE RESPONDENTS IN OPPOSITION

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QUESTION PRESENTED

Whether § 301 of the Copyright Act preempts a state law contract containing an implied-in-fact promise to pay for the use of copyright subject matter?

RULE 29.6 STATEMENT

Pursuant to Supreme Court Rule 29.6, Respondent Wrench LLC has no parent corporation and issues no stock. Respondents Joseph Shields and Thomas Rinks are individuals.

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BRIEF FOR THE RESPONDENTS IN OPPOSITION

Petitioner seeks to invalidate a state law implied-in-fact contract simply because the contract relates to intellectual property. Petitioner claims the contract is preempted by § 301 of the Copyright Act. The Sixth Circuit ruled against preemption and upheld the contract, using the "extra element" test employed by all the courts of appeals in analyzing preemption under § 301. The Sixth Circuit reversed summary judgment for Petitioner and remanded the case to the district court for further proceedings.

Petitioner asserts a conflict between the Sixth Circuit here and other courts of appeals. But there is no conflict. The Sixth Circuit's ruling below is the ***only*** court of appeals ruling on preemption of implied-in-fact contracts under § 301. Petitioner relies on pure dictum in the Sixth Circuit's opinion to fabricate its asserted conflict.

STATEMENT OF THE CASE[1]

I. NATURE OF THE CASE.

Respondents seek their expectation damages under an implied-in-fact contract, Pet. App. 8a-9a, in which (1) they created and disclosed to Petitioner a marketing concept featuring a live Chihuahua obsessed with Taco Bell food, and (2) Petitioner promised to pay for its use of the concept in its advertising and marketing, *see id.* at 2a-4a, 38a-41a. Petitioner used Respondents'

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[1]Because the Petition arises from summary judgment under Rule 56, this Court "must draw all reasonable inferences in favor of" and "should give credence to the evidence favoring" Respondents, the nonmoving party. *Reeves v. Sanderson Plumbing Products, Inc.*, 530 U.S. 133, 150-51, 120 S. Ct. 2097 (2000) (discussing Rule 50, which "mirrors" Rule 56).

Chihuahua concept and related ideas as intended by the parties' implied-in-fact agreement, *id.* at 21a, but then breached the agreement by failing to pay for such use as promised, *id.* at 15a.

Petitioner tries to characterize this case as one seeking redress for unauthorized use of Respondents' "Psycho Chihuahua" cartoon caricature, *i.e.* a case akin to one for copyright infringement. Pet. 3-5, 11. But that mischaracterizes the case for two fundamental reasons. First, the work product at issue is not the cartoon caricature. It is the live Chihuahua concept created and disclosed to Petitioner under the parties' implied-in-fact contract. Pet. App. 3a-5a. Second, Petitioner's use of Respondents' concept and related ideas did not breach the contract. *Id.* at 15a. To the contrary, the very purpose of the contract was Petitioner's use of the Chihuahua concept, and Respondents worked diligently for one year to produce a marketing concept specifically designed to promote Petitioner's food products. *See id.* at 2a-6a.

II. STATEMENT OF FACTS.

Two of Petitioner's officers—Rudy Pollack, vice-president, and Ed Alfaro, creative services manager—approached Respondents Thomas Rinks and Joseph Shields in June 1996 at a licensing exposition in New York to discuss Respondents' cartoon caricature "Psycho Chihuahua." Pet. App. 2a. Thereafter, for approximately one year, Petitioner solicited Respondents to create a marketing concept and advertising ideas derived from this Chihuahua character. In response to Petitioner's solicitations, Respondents adapted the character into one specifically suited for Petitioner's marketing needs and presented Petitioner with numerous advertising and promotional ideas based on the adapted Chihuahua character. *See id.* at 2a-6a. Petitioner solicited and Respondents disclosed the Chihuahua concept and related ideas pursuant to a

mutual understanding that Petitioner would pay for any use it might make of them. *Id.* at 3a-4a, 39a.

This one-year business relationship between Petitioner and Respondents includes the following highlights:

- In July 1996, Respondents told Petitioner that a live Chihuahua manipulated by computer graphic imaging should be used in television commercials. The dog would exhibit the general personality of the carton caricature—a small dog with a big dog attitude—but would now be obsessed with Taco Bell food. Pet. App. 2a-3a.

- In November 1996, Respondents' licensing agents met with Petitioner to discuss Petitioner's use of Respondents' evolving Chihuahua character and marketing ideas. Pet. App. 31a. Petitioner requested a specific licensing proposal from Respondents. *Id.*

- On November 18, 1996, Respondents sent Petitioner a detailed licensing proposal, providing a specific basis for calculating fees to be paid to Respondents for Petitioner's use of the Chihuahua-based marketing concept. Pet. App. 4a, 32a. Petitioner did not accept or reject the proposal. *Id.* But the parties continued to discuss Petitioner's use of Respondents' concept and ideas. *Id.* at 32a.

- On February 6, 1997, Petitioner met with Respondents, and Respondents presented Petitioner with their ideas for a full advertising, licensing, and promotional campaign featuring a live Chihuahua manipulated by computer technology. Pet. App. 4a, 32a. Respondents presented orally specific ideas for television commercials, including a male dog passing by a female dog to get to Taco Bell food. *Id.*

- On April 4, 1997, Respondents' licensing agents made a formal presentation of the Chihuahua concept to Petitioner, including storyboards depicting Respondents' ideas for television commercials and samples of uniform designs, T-shirts, food wrappers, posters, and cup designs. Pet. App. 5a, 33a.

- In July 1997, Petitioner aired a television commercial featuring a live Chihuahua manipulated by computer technology. In it, a male dog passes by a female dog to get to a person eating Taco Bell food. Pet. App. 5a-6a, 34a-36a.

- The Chihuahua commercial was well-received. Petitioner then made the Chihuahua character the focus of a national advertising campaign, which proved to be very successful. Pet. App. 6a, 36a.

III. PROCEEDINGS BELOW.

In the district court, Petitioner sought summary judgment regarding Respondents' implied-in-fact contract claim on three grounds: (1) the evidence does not create a triable issue on the existence of a contract implied-in-fact, Pet. App. 38a-41a; (2) the evidence establishes conclusively that Petitioner's advertising agency independently created the Chihuahua marketing concept, *i.e.*, that Petitioner did not use Respondents' concept and ideas, *id.* at 51a-58a; and (3) even if the parties' conduct created an implied-in-fact contract, and even if Petitioner used Respondents' work pursuant to the contract, Respondents' claim for breach of the contract is preempted by § 301 of the Copyright Act, *id.* at 41a-51a.

The district court ruled against Petitioner on the first ground, holding that Respondents "presented sufficient evidence to create a genuine issue of material fact regarding whether an implied in fact

contract existed between the parties." Pet. App. 41a. Critical to the court's holding was Petitioner's concession that the parties had a mutual understanding of compensation for use: if Petitioner used Respondents' concept and ideas, Petitioner "would compensate [Respondents] for the fair value of such use." *Id.* at 39a.

The district court also ruled against Petitioner on the second ground, holding that the record contains sufficient evidence to support the allegation that Petitioner used Respondents' creative work in producing commercials featuring a live Chihuahua obsessed with Taco Bell food. Pet. App. 51a-58a. A reasonable inference exists that Petitioner "passed" Respondents' concept and ideas to its advertising agency, the alleged independent creator. *Id.* at 57a.

But the district court ruled for Petitioner on the third ground, holding that § 301 preempts Respondents' contract claim. Pet. App. 41a-51a. The court concluded that Respondents' contract rights "are equivalent to the exclusive rights granted by [§ 106 of the] Copyright Act." *Id.* at 50a.

The district court premised its preemption holding on a patent mischaracterization of Respondents' contract claim. The court ignored the compensation element of the contract and viewed Petitioner's implied-in-fact promise as a prohibitory "promise not to use [Respondents'] ideas and concepts," Pet. App. 51a, rather than an affirmative promise to pay for the contractual right to use Respondents' work. This mischaracterization led the court to conclude that the contract implied-in-fact did nothing more than prohibit conduct already prohibited by § 106 of the Copyright Act: "Here, [Petitioner's] alleged promise not to use [Respondents'] ideas and concepts does not differ from the Copyright Act's prohibition against preparing derivative works from or displaying copyrighted works." *Id.*

On appeal, the Sixth Circuit affirmed the "implied-in-fact contract" and "use" holdings of the district court, Pet. App. 8a-9a, 21a, but reversed the court's preemption ruling, *id.* at 13a-21a. The court recognized the compensation element of the contract, *id.* at 20a (The "implied-in-fact contract claim contains the essential element of expectation of compensation."), and properly characterized Petitioner's implied-in-fact promise, not as a promise to refrain from using Respondents' creative work, but as a promise to pay for its use of such work, *id.* at 15a ("The gist of [Respondents'] state law implied-in-fact contract claim is breach of an actual promise to pay for [Respondents'] creative work.").

Having properly determined the nature of the promise at issue, the Sixth Circuit reasoned that (1) Petitioner breached the contract by failing to pay as promised, not by "use of the work alone," *id.*; (2) Petitioner's promise to pay is an extra element of the contract claim, as compared to a claim for copyright infringement, an element "in addition to the acts of reproduction, performance, distribution, or display" protected by § 106, *id.*; and (3) the promise to pay makes the contract claim "qualitatively different from a copyright infringement claim," the qualitative difference being "the requirement of proof of an enforceable promise and a breach thereof which requires, *inter alia*, proof of mutual assent and consideration, as well as proof of the value of the work and [Petitioner's] use thereof," *id.*

REASONS FOR DENYING THE PETITION

No compelling grounds exist for grant of certiorari. The issue presented is whether § 301 of the Copyright Act preempts state law contracts containing an implied-in-fact promise to pay for the use of copyright subject matter. The Sixth Circuit recognized that implied-in-fact contracts are actual contracts requiring proof of the same elements as express contracts, and joined five other courts of

appeals in holding against contract preemption under § 301, a position consistent with the historic power of the states over private contracts.

Petitioner patently misstates the law in attempting to manufacture a split in the courts of appeals. Section 301 does not call for a comparison of state law remedies with the remedy provisions of the Copyright Act. Rather, § 301 asks whether the right being asserted under state law is equivalent to one of the five exclusive rights set forth in § 106 of the Act. The Sixth Circuit correctly held that when an author sells a work under private contract, the author's contractual right to be paid is not equivalent to the author's right under § 106 to be the only person permitted to reproduce, adapt, publish, perform, or display the work. The Sixth Circuit's passing reference to remedies was immaterial to its holding and constitutes nothing more than dictum.

Here, preemption itself, rather than state law, would stand "as an obstacle to the accomplishment and execution of the full purposes and objective of Congress." *California v. ARC Am. Corp.*, 490 U.S. 93, 100-01 (1989). Implied-in-fact contracts are actual consensual agreements requiring mutual assent and consideration. And contracts are the means by which authors capitalize on their copyright monopolies, monopolies "designed to assure contributors to the store of knowledge a fair return for their labors." *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 546 (1985). In other words, in enacting the Copyright Act, Congress cannot have intended to grant authors monopoly rights as an economic incentive to spur creative effort, and, at the same time, have intended to preempt state law commercial contracts, the primary means by which authors can economically exploit their monopoly rights and earn a profit from their works.

I. THIS CASE IS ILL-SUITED FOR SUPREME COURT REVIEW.

A. Because this Case Presents an Issue of First Impression in the Courts of Appeals, It Should Not Be Reviewed by this Court.

The Sixth Circuit correctly stated that "[t]his case raises a question of first impression." Pet. App. 1a. No other court of appeals has opined regarding the applicability of § 301 of the Copyright Act to implied-in-fact contracts under state law. Such *sui generis* status makes this case inappropriate for Supreme Court review for three reasons.

1. The courts of appeals are not in conflict.

A core ground for granting certiorari is a conflict among the courts of appeals. *See Northwest Airlines, Inc. v. Duncan*, 531 U.S. 1058, 121 S. Ct. 650, 650 (2000) (O'Connor, J., dissenting from denial of certiorari) ("The Courts of Appeals . . . have taken directly conflicting positions on this question.") The issue presented here, however, is one of first impression in the courts of appeals, and there is thus no conflict among them. The Sixth Circuit ruled that § 301 does not preempt implied-in-fact contracts containing a promise to pay for the use of copyright subject matter. No court of appeals has held otherwise. In fact, no court of appeals has held that § 301 preempts any contract, express or implied-in-fact. To the contrary, every court of appeals addressing the issue of contract preemption under § 301 has ruled against preemption. *See Lipscher v. LRP Publ'ns Inc.*, 266 F.3d 1305, 1318-19 (11th Cir. 2001) (newsletter subscription agreement); *ProCD, Inc. v. Zeindenberg*, 86 F.3d 1447, 1449-55 (7th Cir. 1996) (software license agreement); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 431-435 (8th Cir.

1993) (software license agreement); *Taquino v. Teledyne Monarch Rubber*, 893 F.3d 1488, 1501 (5th Cir. 1990) (sales and manager agreement); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988) (architecture services agreement).

The Sixth Circuit did not create a conflict here. Rather, it created unanimity among the courts of appeals. The Sixth Circuit correctly recognized that an implied-in-fact contract "'is a consensual agreement presenting the same elements as are found in an express contract,'" Pet. App. 19a (quoting 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 16.03, at 16-11 (2000) [hereinafter *Nimmer*]), and joined the Fourth, Fifth, Seventh, Eighth, and Eleventh Circuits in holding against § 301 preemption of state law contracts. Such unanimity among the courts of appeals finds support in this Court's pronouncement in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979): "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property." It finds support in the legislative history of § 301: "Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breach of contract." H.R. Rep. No. 94-1476, at 132 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748. (For a full discussion of § 301's legislative history, *see Nat'l Car Rental Sys.*, 991 F.2d at 433-34.) And it finds support in the leading commentary on copyright law:

> [A] breach of contract action (*whether such contract involves a mere idea or a fully developed literary work*) is not predicated upon a right that is "equivalent to any of the exclusive rights within the general scope of copyright . . . ." This for the reason that a contract right may not be claimed unless there exists an element in addition to the mere acts of reproduction, performance, distribution

> or display. *That additional element is a promise (express or implied) upon the part of defendant.*

4 *Nimmer* § 16.04[C], at 16-25 (emphasis added).

2. An issue of immediate public importance is not presented.

A second core ground for granting certiorari is the public importance of the issue presented. *See Rice v. Sioux City Mem'l Park Cemetery, Inc.*, 349 U.S. 70, 79 (1955) ("[T]he question was of importance merely to the litigants and did not present an issue of immediate public significance."). In the circumstances presented here, however, the *sui generis* nature of this case evidences its lack of immediate public importance. Section 301 of the Copyright Act became effective on January 1, 1978. 17 U.S.C. § 301(a). From that date until July 6, 2001, the date of the decision below, no court of appeals addressed the applicability of § 301 to implied-in-fact contracts arising under state law. Such contracts and the Copyright Act have peacefully coexisted for over 22 years. Certainly, if state law implied-in-fact contracts posed a serious obstacle to the purposes of the Copyright Act, or significantly interfered with the marketplace for intellectual property, the question of § 301 preemption would have been before the courts of appeals on numerous occasions during the last 22 years. But the question has not been before the courts of appeals at all except for this case.

Far from presenting an issue of immediate public importance, the Sixth Circuit's decision merely continues the law as it has existed for many years without appellate comment. The decision does not change the law or modify existing precedent. Review by this Court is unwarranted.

3. The issue presented is not mature.

This Court often practices judicial restraint, waiting until an issue matures through study and interpretation by a number of lower courts before it undertakes review of the issue. *See Durden v. California*, 121 S. Ct. 1183, 1183 (2001) (Souter, J., dissenting from denial of certiorari) ("[R]ulings by other courts . . . would be valuable to us in any examination of the issue we might ultimately give it."); *Lackey v. Texas*, 514 U.S. 1045, 115 S. Ct. 1421, 1422 (1995) (Stevens, J., respecting denial of certiorari) ("[A] denial of certiorari on a novel issue will permit the state and federal courts to 'serve as laboratories in which the issue receives further study before it is addressed by this Court.'" (quoting *McCray v. New York*, 461 U.S. 961, 963 (1983) (Stevens, J., respecting denial of certiorari))).

Here, the Court's practice of judicial restraint will be wisely exercised. This case presents an issue of first impression. A three judge panel decided the case on a 3–to–0 vote. *En banc* consideration was denied. The issue presented has not been studied in a number of cases by several courts of appeals, it is not mature, and it is thus not well suited for Supreme Court review. *Cf. Northwest Airlines, Inc. v. Duncan*, 531 U.S. 1058, 121 S. Ct. 650, 651 (2000) (O'Connor, J., dissenting from denial of certiorari) ("The legal issue is . . . well suited for resolution by this Court. The two leading cases . . . are both the product of en banc consideration. They have fully explained the relevant considerations, including the language and history of the ADA and its pre-emption clause, as well as the policies supporting the possible interpretations . . . ."). This Court should exercise judicial restraint and allow this issue of first impression to mature through further lower court consideration.

B. Because the Sixth Circuit Remanded this Case, It Should Not Be Reviewed by this Court.

This Court's normal practice is to deny review before final judgment in the lower courts. *Va. Military Inst. v. United States*, 508 U.S. 946, 113 S. Ct. 2431, 2432 (1993) (Scalia, J., respecting denial of certiorari) ("We generally await final judgment in the lower courts before exercising our certiorari jurisdiction."). A case remanded by the court of appeals is not considered ripe for Supreme Court review. *Bhd. of Locomotive Firemen & Enginemen v. Bangor & Aroostook R.R.*, 389 U.S. 327, 328 (1967) (per curiam) ("[B]ecause the Court of Appeals remanded the case, it is not yet ripe for review by this Court."). Here, the Sixth Circuit reversed the district court's grant of summary judgment in Petitioner's favor and remanded the case for further proceedings. Pet. App. 27a. The case is thus not ripe for review, and this Court should follow its normal practice and deny certiorari.

Significantly, at least three possible scenarios on remand will render Petitioner's preemption issue moot, evidencing that Supreme Court review at this stage of the case is premature. First, Petitioner concedes that § 301 does not preempt a state law contract having specific terms, "whether the contract is express or implied by the actions of the part[ies]." Pet. 12. Respondents made a written proposal to Petitioner in this case, containing specific terms governing Petitioner's use of Respondents' Chihuahua concept. Pet. App. 4a. On remand, the jury will be entitled to find that

Petitioner became bound by the specific terms of this written proposal.[2] Second, the jury may find that the parties' conduct did not evidence an implied-in-fact contract at all. Finally, the jury may find that Petitioner independently created its Chihuahua-based marketing campaign. In short, upon a complete presentation of the evidence and evaluation by the finders of fact, the preemption issue may disappear. This Court should thus deny certiorari here and wait for a case with a complete factual record before addressing the issue of § 301 preemption of state law implied-in-fact contracts.

II. THE DECISION BELOW DOES NOT CONFLICT WITH A DECISION OF ANY OTHER COURT OF APPEALS.

Petitioner asserts a conflict between the Sixth Circuit here and other courts of appeals. But three points strip the asserted conflict of all relevance to the question of certiorari. First, as discussed in

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[2] "An offeree who does any act inconsistent with the offeror's ownership of offered property is bound in accordance with the offered terms." Restatement (Second) of Contracts § 69(2). *See Landham v. Galoob Toys, Inc.*, 227 F.3d 619, 624 (6th Cir. 2000) ("[P]arties may be bound by the terms of an unsigned contract when their actions demonstrate assent to the agreement."). For example, a buyer who goes into a market and asks and is told the price of an orange cannot take the orange and say "I will not pay your price, but will pay something less." The buyer, by taking the orange, becomes liable for the stated price. *Desny v. Wilder*, 299 P.2d 257, 268 (Cal. 1956). Here, Respondents presented Petitioner with a written proposal for Petitioner's use of their ideas, including price terms. Pet. App. 4a. Petitioner did not expressly accept or reject the proposal. *Id.* But Petitioner thereafter used Respondents' ideas in its television commercials, thereby becoming bound by Respondents' written proposal.

section II.A. below, the Sixth Circuit correctly interpreted § 301 of the Copyright Act, concluding that the crux of the contract claim here, Petitioner's failure to make contractual payment, is qualitatively different than the crux of a copyright claim, a violation of one of the five exclusive rights set forth in § 106 of the Copyright Act. No other court of appeals has opined on the relationship between a contractual right of payment, on the one hand, and the exclusive § 106 rights, on the other hand, for purposes of § 301 preemption. There is, therefore, no conflict among the courts of appeals.

Second, as discussed in section II.B. below, Petitioner attempts to manufacture a circuit split based not on the Sixth Circuit's holding regarding the qualitative difference between § 106 and state contract rights, but on the Sixth Circuit's discussion in dictum of copyright and contract remedies. It is this dictum and only this dictum that Petitioner points to as creating a conflict. But dictum cannot create the actual and direct conflict necessary for a grant of certiorari.

Third, as discussed in section II.C. below, the remedies issue referenced in the Sixth Circuit's dictum, and relied on by Petitioner exclusively in asserting a circuit conflict, is entirely irrelevant to the outcome of this case. Section 301 mandates a comparison of the state law right with the five § 106 rights, not a comparison of state law remedies with the remedy provisions of the Copyright Act. This case thus fails to raise the issue on which Petitioner relies in requesting certiorari.

A. The Sixth Circuit Correctly Held that § 301 Does Not Preempt Implied-in-Fact Promises to Pay for the Use of Copyright Subject Matter.

The Sixth Circuit correctly interpreted and applied § 301 of the Copyright Act. The analysis starts with the text of the statute.

Section 301(a) preempts only legal or equitable rights under state law "that are equivalent to any of the exclusive rights . . . *specified by Section 106*." 17 U.S.C. § 301(a) (emphasis added). Section 106 grants the copyright owner five exclusive rights: the rights to (1) reproduce, (2) prepare derivative works from, (3) distribute, (4) perform, and (5) display the copyrighted work. 17 U.S.C. § 106(1)-(5). If a state law claim is based on violation of a legal or equitable right that is not equivalent to one of § 106's specified quintet of rights, § 301 does not preempt it. 17 U.S.C. § 301(b)(3). Thus, if a state law claim involves a right that is not equivalent to the rights of reproduction, adaptation, distribution, performance, or display, it is not preempted.

To determine whether a legal or equitable right asserted under state law is equivalent to one of the quintet of rights specified by § 106, the courts use an "extra element" test:

> Equivalency exists if the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights. Conversely, if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display in order to constitute a state-created cause of action, there is no preemption, provided that the extra element changes the nature of the

> action so that it is qualitatively different from a copyright infringement claim.

Pet. App. 14a (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985); *Rosciszewski v. Arete Assocs., Inc.*, 1 F.3d 225, 230 (4th Cir. 1993); and *Nat'l Car Rental Sys.*, 991 F.2d at 431). *Accord Computer Assocs. Int'l, Inc. v. Altai Inc.*, 982 F.2d 693, 716 (2d Cir. 1992); *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973, 976-77 (9th Cir. 1987), *overruled on other grounds by Fogerty v. Fantasy, Inc.*, 570 U.S. 517 (1994); 1 *Nimmer* § 1.01[B], at 1-14 - 1-15.

The Sixth Circuit concluded correctly that, under the parties' implied-in-fact contract, Respondents' contractual right to payment cannot be abridged by an act that, in and of itself, infringes one of § 106's exclusive rights. Pet. App. 15a. The only act that abridges the contractual right to payment—failure to pay—does not infringe the § 106 rights, and the only acts that infringe the § 106 rights—reproduction, adaptation, distribution, performance, or display of the work—do not abridge the contractual right to payment. Unlike a copyright claim, which involves an allegation that the infringer violated a § 106 right by "using" the copyrighted work without authorization, a contract claim involves authorized use and a failure to make contractual payment: "It is not the use of the work alone but the failure to pay for it that violates the contract and gives rise to the right to recover damages." Pet. App. 15a. Thus, Respondents' contract right is not equivalent to the quintet of rights specified by § 106 and is not preempted. *Id.*

The Sixth Circuit also concluded correctly that Respondents' contract claim requires an extra element "in addition to the acts of reproduction, performance, distribution or display" specified by § 106. Pet. App. 15a. "The extra element is the promise to pay."

Id. And the court correctly recognized that the promise to pay makes the contract claim qualitatively different from a copyright claim: "The qualitative difference includes the requirement of proof of an enforceable promise and a breach thereof which requires, *inter alia*, proof of mutual assent and consideration, as well as proof of the value of the work and appellee's use thereof." *Id.*

In sum, the Sixth Circuit correctly construed § 301 of the Copyright Act and held that a contractual right to be paid for use of a work is not equivalent to any of the exclusive § 106 rights—the rights to reproduce, adapt, distribute, perform, or display the work. No other court of appeals has opined on this issue. There is thus no conflict between the Sixth Circuit and any other court of appeals on the issue actually presented and decided in this case.

B. Petitioner's Alleged Conflict Rests Solely on Sixth Circuit Dictum.

Inconsistency in courts of appeals' dicta, rather than a direct and intolerable conflict between their holdings, does not warrant a grant of certiorari. Robert L. Stern, et al., *Supreme Court Practice* 167 (7th ed. 1993) (To justify certiorari, "there must be a real and 'intolerable' conflict . . ., not merely an inconsistency in dicta."). And, here, Petitioner's alleged conflict rests solely on dictum in the Sixth Circuit's opinion below.

After holding that Respondents' contractual right to payment is not equivalent to § 106's quintet of rights, and is thus not preempted, the Sixth Circuit in dictum compared Copyright Act and Michigan contract remedies and indicated they too are not equivalent, a fact that "further reflected" the qualitative difference between the state contract and federal statutory rights. Pet. App. 15a-16a. Even a cursory reading of the Sixth Circuit's opinion

demonstrates that its passing reference to remedies is immaterial to the core holding. The court's focus is the "extra element" test, through which the court concludes that the contractual promise to pay makes Respondents' implied-in-fact contract claim qualitatively different than a copyright claim. *Id.* at 15a. The court then "piles on" its analysis, noting the qualitative difference created by the promise to pay is "*further* reflected" by the difference in remedies. *Id.* (emphasis added). But if one were to delete entirely the two-paragraph remedy discussion, *id.* at 15a-16a, the opinion would read seamlessly and reach the same conclusion.

The Sixth Circuit underscored the immateriality of its remedies discussion less than two months later in *Murray Hill Publications, Inc. v. ABC Communications, Inc.*, 264 F.3d 622 (6th Cir. 2001). Distinguishing the contract here from one the court found preempted in *Murray Hill*, the Sixth Circuit explained explicitly why the contract in this case is not preempted:

> The contract claimed in *Taco Bell* included the extra element of a promise to pay, requiring proof of an enforceable promise, which in turn would require proof of the mutual assent of the parties, and a breach of that promise.

264 F.3d at 638. The *Murray Hill* opinion does not mention remedies at all.

Petitioner points solely to the remedies dictum in the Sixth Circuit's opinion below as creating the circuit split in this case. *See* Pet. 9-11. The asserted conflict thus provides an insufficient basis on which to grant certiorari. Petitioner, of course, attempts to bootstrap the remedies discussion into something more than bare dictum, claiming if the Sixth Circuit had concluded that § 504 of the Copyright Act allows one "to recover the reasonable value of

the use of the work, it could not have reached the result it did." *Id.* at 11. But, again, a simple reading of the Sixth Circuit opinion belies that claim. The Sixth Circuit's remedies discussion did not drive the ultimate holding that a contractual promise to pay is not equivalent to the rights specified by § 106. Accordingly, there is no merit in the primary basis on which Petitioner claims certiorari should be granted.

C. The Remedies Issue Is Entirely Irrelevant to § 301 Preemption—the Issue Actually Presented by this Case.

Petitioner's discussion of contract and copyright remedies is a complete red herring because § 301 preemption analysis requires a comparison of rights, not remedies. Petitioner's remedies discussion is therefore entirely irrelevant to the preemption issue presented by this case. That preemption issue, as previously set forth, is one of first impression, and there is thus no circuit split justifying a grant of certiorari.

The Copyright Act itself makes clear that rights, not remedies, must be compared. Section 301's text requires a comparison of state law rights to § 106's exclusive rights; it does not require or even suggest a comparison of state law remedies to the remedies specified by §§ 502 to 505 of the Copyright Act. The mandated comparison is between the right being asserted under state law, on the one hand, and the quintet of rights specified by § 106 of the Copyright Act, on the other hand. *See Rodrigue v. Rodrigue*, 218 F.2d 432, 439 (5th Cir. 2000) ("[T]he preemptive effect of federal copyright law extends only to this explicitly-enumerated, lesser-included quintet [of rights found in § 106]."). Remedies are immaterial. *See Nat'l Car Rental Sys.*, 991 F.2d at 435 ("We cannot conclude that this [breach of contract] action is preempted simply because the parties' contract provides a remedy for breach identical to a remedy provided in copyright."). And the quintet of

rights specified by § 106 clearly do not deal with the commercial exploitation of a work, the subject matter of this case. *See Rodrigue*, 218 F.3d at 440 ("Notably absent from the Copyright Act's exclusive sub-bundle of five rights [specified by § 106] is the right to enjoy the earnings and profits of the copyright.").[3]

Completely ignoring § 301's text, Petitioner fabricates from whole cloth a brand new preemption test, citing the opinion below and four cases for the proposition that the "extra element" analysis "requires a comparison of the state and federal *remedies* to enforce the rights at issue." Pet. 8 (emphasis added). But the Sixth Circuit's opinion does not say remedies are to be compared, and neither do the cited cases. They each follow the text of § 301 and compare the state law *rights* to the quintet of *rights* specified by § 106. *See* Pet. App. 14a ("Equivalency exists if the *right* defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive *rights*." (emphasis added)). *Accord Rosciszewski*, 1 F.3d at 229; *Nat'l Car Rental Sys.*, 991 F.2d at 431; *Altai*, 982 F.2d at 716; *Del Madera*, 820 F.2d at 977.

Petitioner creates its unprecedented test for § 301 preemption, comparing state and federal remedies rather than state and § 106 rights, as a bridge to reach an issue entirely irrelevant to this case—whether § 504 of the Copyright Act permits actual damages for copyright infringement to be measured by the reasonable value of

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[3]The Fifth Circuit clarified this point in its *Rodrigue* opinion: "[Section] 106[ ] is a finite bundle of but five fundamental rights, being the exclusive rights of reproduction, adaptation, publication, performance, and display. Notably, none of these rights either expressly or implicitly include the exclusive right to enjoy income or any of the other economic benefits produced by or derived from copyright." 218 F.3d at 435.

an infringer's use of a work. Pet. 9-11 It then asserts that the Sixth Circuit's dictum suggesting that actual damages under § 504 cannot be measured by the value of the infringer's use is in conflict with other courts of appeals' holdings on that issue, citing as its lead case *Davis v. Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001). Pet. 9. The only appropriate response to this asserted conflict, however, is "so what?" Section 301 requires a comparison of rights, not remedies, and no court of appeals has held that a contractual right to be paid is equivalent to any of the exclusive § 106 rights. There simply is no conflict among the courts of appeals on the issue actually presented by this case and decided by the Sixth Circuit.

Cases from the Seventh Circuit illustrate that § 504 remedies are irrelevant to § 301 preemption. In *Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357 (7th Cir. 1985), cited by Petitioner in support of its asserted circuit split, Pet. 10, the Seventh Circuit concluded that value of the use is a permissible way to calculate § 504 damages in a copyright infringement action. The Seventh Circuit has also held, however, that § 301 does not preempt state law contracts because contracts do not create exclusive rights, but rather affect only their parties. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454-55 (7th Cir. 1996). Thus, in the Seventh Circuit, a contract claim seeking the reasonable value of the defendant's use of a work will not be preempted under § 301, even though, in a copyright infringement claim, actual damages under § 504 may include the reasonable value of the infringer's use. Furthermore, Respondents' state law implied-in-fact contract in this case would clearly *not* be preempted in the Seventh Circuit, notwithstanding *Deltak* and its progeny.

Accordingly, while it is true that courts and commentators have debated whether the reasonable value of a use should be implied as

a measure of actual damages under § 504[4], this academic debate does not affect the outcome in this case or the Sixth Circuit's holding that Respondents' right to contractual payment is not equivalent to the quintet of rights specified by § 106. Moreover, because its conclusion regarding remedies is pure dictum, if the Sixth Circuit were itself presented with the question of whether the reasonable value of an infringer's use is a possible measure of § 504 damages, it may very well reach the same conclusion as its sister circuits. The issue actually decided by the Sixth Circuit and the issue discussed by Petitioner simply have nothing to do with each other.[5]

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[4]*Compare Bus. Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 406-07 (2d Cir. 1989) (denying "use" damages), *and* 4 *Nimmer* § 14.02[A], at 14-13 to 14-19 (advocating for result reached in *Freedonia*), *with Deltak*, 767 F.2d at 360-61 (allowing "use" damages), *and Davis*, 246 F.3d at 172 (agreeing with *Deltak*). The Sixth Circuit noted the debate here by contrasting *Freedonia* and Nimmer with *Deltak*. Pet. App. 16a & n.5.

[5]The illogical outcomes that result when applying Petitioner's "comparison of the remedies" test demonstrates its irrelevancy to proper preemption analysis. First, imagine an express author/publisher contract that provides an injunctive remedy in case of breach. Because that remedy is specified by § 502 of the Copyright Act, the contract will be preempted according to Petitioner. Next, imagine a lawsuit based on a state law copyright act that provides fixed damages of $100,000 for every violation of the act. Because such a remedy is not specified by §§ 502 to 505 of the Copyright Act, the cause of action will not be preempted. Such results are the natural application of Petitioner's unfounded test.

III. THE PETITION CONTAINS MISSTATEMENTS OF FACT AND LAW.

The Petition contains numerous misstatements of fact and law, in addition to its misleading discussion of remedies and § 301 preemption. Examples include the following.

First, Petitioner states that "the act alleged to have violated [Respondents'] rights under state law was Petitioner's improper use of material within the subject matter of the Copyright Act." Pet. 11. But that is not Respondents' claim; Respondents' claim is that the contractual bargain was authorized use in exchange for a promise to pay. What is at issue is Petitioner's failure to pay under the contract, as the Sixth Circuit held: "It is not the use of the work alone but the failure to pay for it that violates the contract and gives rise to the right to recover damages." Pet. App. 15a.

Second, Petitioner states that the "rights created by [express] agreements . . . arise from a meeting of the minds of the parties and are not equivalent to the exclusive rights granted by the Copyright Act." Pet. 12. But Petitioner fails to acknowledge that the parties' implied-in-fact contract similarly arises from a meeting of the minds. Pet. App. 15a (An "implied in fact [contract] . . . 'does not exist, unless the minds of the parties meet.'" (quoting *Cascaden v. Magryta*, 225 N.W. 511, 512 (Mich. 1929)).

Third, Petitioner states that Respondents "are not seeking to vindicate a specific right to which assent was manifested in conduct rather than words." Pet. 13. But Respondents are seeking to vindicate a specific right—a contractual right to payment—to which Petitioner's assent was manifested in conduct. Respondents' implied-in-fact contract requires a meeting of the minds. There is thus "an actual promise to pay for [Respondents'] creative work." Pet. App. 15a.

Finally, Petitioner claims that an implied-in-fact contract lacking an express price term is the same as a contract implied-in-law, and, thus, "the right claimed by respondents is no different from a right to reasonable compensation under an implied-in-law contract or 'quasi contract.'" Pet. 13. But Petitioner errs here for several reasons. First, the statement ignores the long-standing distinction between implied-in-law and implied-in-fact contracts. *See Baltimore & Ohio R.R. v. United States*, 261 U.S. 592, 597 (1923) (An implied-in-law contract is a "fiction of law," while an implied-in-fact contract is "founded upon a meeting of minds . . . inferred, as a fact, from conduct of the parties.").

Second, by definition, an implied-in-fact contract does not have express terms. It is thus well-settled that a promise can be "inferred wholly" from conduct, Restatement (Second) of Contracts § 4, including a promise of compensation, 4 *Nimmer* § 16.05[E], at 16-44.1.

Third, as the Sixth Circuit recited, Pet. App. 19a-20a, Professor Nimmer opines it is the mutual expectation of compensation, not an express price term, that distinguishes implied-in-fact from implied-in-law contracts. And it is this mutual expectation of compensation that removes contracts implied-in-fact from § 301 preemption. *See* 1 *Nimmer* § 1.01[B][1][g], at 1-38 n.166.

Fourth, as stated in section I.B. above, Petitioner received a written licensing proposal from Respondents and thereafter used Respondents' concept and ideas. A jury will thus be entitled to find that Petitioner is bound by the express price terms contained in Respondents' written proposal.

Finally, contrary to Petitioner's suggestions, Pet. 13, 14, the specific terms of an implied-in-fact contract are not derived by default from a state court judgment of fairness, which is the basis

of quasi-contract recovery. Rather, the terms are derived by the finder of fact from evidence of the parties' course of dealing, including any express negotiations; the surrounding circumstances, including industry customs and practices serving as the context for the parties' mutual expectation of compensation; and expert testimony regarding the value of the matter at issue. Such evidence proves the specific, in fact terms of the parties' agreement.

IV. PETITIONER'S POLICY ARGUMENTS DO NOT WITHSTAND SCRUTINY.

Petitioner's policy arguments regarding national uniformity in copyright law are premised on two erroneous assumptions: (1) implied-in-fact contracts arising under state law "unsettle commercial expectations," "impair the free exchange of creative ideas," Pet. 17, and threaten "the predictability and certainty" of "those who participate in the exchange of ideas and expression," *id.* at 16; and (2) state law implied-in-fact contracts involving copyright subject matter are easy claims to prove, creating liability based on "even casual conversations or explorations," *id.* at 17.

History disproves the first assumption. The Copyright Act became effective in 1978 and, since that date, no court of appeals has held that § 301 preempts a state law implied-in-fact contract.[6] Such contracts have existed under state law concurrently with the Copyright Act for over 22 years. Yet there has been no unpredictability or uncertainty in the exchange of ideas and

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[6]The first district court preemption of an implied-in-fact contract did not occur until 1997. *See Worth v. Universal Pictures, Inc.*, 5 F. Supp. 2d 816 (C.D. Cal. 1997) (confusing implied-in-fact with implied-in-law contracts).

expression, commercial expectations have not become unsettled, and the free exchange of creative ideas has not been impaired.

Litigation realities disprove the second assumption. To prevail on a claim for breach of an implied-in-fact contract involving ideas, a "plaintiff must prove a specific series of rigid facts that are difficult to prove even in the best of cases." Glen L. Kulik, *Copyright Preemption: Is This the End of Desny v. Wilder?*, 21 Loy. L.A. Ent. L.J. 1 (2000). In the real world, implied-in-fact contracts arise only under limited circumstances, *see* 4 *Nimmer* § 16.05 (concluding that an implied-in-fact promise to pay for use of an idea usually requires direct solicitation by the defendant); *accord Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130, 1140-41 (Alaska 1996), such as those present here, where Petitioner solicited Respondents' ideas for one year pursuant to a mutual understanding of compensation.

The Sixth Circuit's recent ruling in *Murray Hill* demonstrates the difficulty in proving an implied-in-fact contract. There, the Sixth Circuit distinguished the facts of the present case and preempted the plaintiffs' claim because the extra element of a contractual promise to pay was missing. The facts showed merely a quasi-contract claim:

> We think that [plaintiffs'] allegations that WJR knew of [plaintiffs'] intention to be paid for the use of [plaintiffs'] work is not an allegation that WJR promised to pay, and does not purport to raise a claim of an implied-in-fact contract. *A claim that one party was aware of the expectations of the other is a far cry from a claim that the*

> *first party agreed to a course of conduct that would fulfill those expectations.*

Murray Hill, 264 F.3d at 638 (emphasis added).[7]

The Sixth Circuit's decision here merely confirms the legal *status quo* that has existed for over 22 years—implied-in-fact contracts involving commercial exploitation of copyright subject matter are not preempted by § 301 of the Copyright Act. The decision does not threaten or interfere with the purposes and objective of the Copyright Act. Accordingly, policy considerations do not warrant a grant of certiorari in this case.

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[7]Petitioner's attempt to drive a wedge between Michigan and Illinois law regarding the proof required for an implied-in-fact contract, Pet. 17 n.5, is unavailing. The 50-year old case cited by Petitioner, *Mitchell Novelty Co. v. United Mfg. Co.*, 94 F. Supp. 612 (N.D. Ill. 1950), does not involve a contract implied-in-fact. Moreover, it is clear that Illinois courts, like those in Michigan and the other 48 states, will recognize an implied-in-fact contract even where the parties have not expressly agreed to a compensation term. *See, e.g., Ekl v. Knecht*, 585 N.E.2d 156, 162 (Ill. App. 1991) (finding an implied-in-fact contract despite no express agreement as to price).

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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DECEMBER 2001